

Business Case for Council Office Accommodation on Civic Hall Site – BurnsBridge Sweett Report (Prepared for Council Meeting 9 June, 2010)

Objectives of Report:

The purpose of the Business Case was to identify:

- The current situation and whether there was the need for additional capacity to accommodate City of Ballarat office based staff;
- The options for provision of new Civic accommodation both now and into the future and in particular, the option of Council owned Civic Office Accommodation on the Civic Hall Site;
- Identify a property reuse/ disposal strategy for Council's existing office buildings to be vacated;
- Identify a preferred implementation strategy and likely timelines for relocating staff;
- An evaluation of the Civic Hall site to accommodate Civic Office Accommodation.
- A financial analysis of the options for provision of new Civic accommodation; and
- Recommendations as to the preferred option for provision of new Civic accommodation and property reuse/ disposal strategy for Council's existing office buildings.

Key Findings:

The key findings of this assessment are noted as follows:

- Approximately 6,650 m² of floor space is required to meet accommodation needs for the next 10 to 20 years.
- Future additions to staff numbers cannot be accommodated within existing Council accommodation without compromising accepted and legislative occupational health standards unless significant investment is made to increase capacity.
- The current three separate office locations leads to confusion at times for both the community and people needing to attend meetings with Council staff about which site they need to attend.
- Having regard to productivity gains associated with a collocated facility, from recent research, we have concluded that potential savings of 1 % of staff time could be achieved from locating all office based Council staff in a single modern office building.
- The benefits of bringing employees together within one purpose built facility include facilitating the adoption of a unified corporate culture and assisting employees to develop a better overall sense of the aims, objectives and operational responsibilities of Ballarat Council.
- The Council owned facilities are aging facilities and maintenance and upgrade costs can only be expected to increase over time as the buildings age further. Utility costs for a new energy efficient building of the same area could be reduced by 25% and maintenance reduced by over 10% in the long term.
- Studies and actual results from green star accredited buildings suggest that a 30% saving in power consumption is achievable with a 5 star rated building. Such a reduction in power consumption will not only save on operating expenditure, but will also contribute significantly to Council's goal of 15% greenhouse gas emissions from 2003 levels (adopted Greenhouse Gas Reduction Strategy, 2006). In addition, a 5 star rated building could potentially reduce water consumption by up to 75%. A 5 star building also has the potential to save on maintenance and operating costs.
- The Civic Hall site offers an opportunity to provide a well located modern single office building to provide improved service delivery and a better standard of office accommodation for Council staff.

Accommodation options considered

This Business Case builds on the previous resolutions of Council with regard to the project dated 9th December 2009 which noted that, 'The current administrative accommodation facilities are not capable of meeting current and future functional requirements of Council.'

In line with this Council's resolution the "do nothing" option maintains the current office provision arrangements with no scope for expansion or provision of additional new facilities or floor space and the undertaking of an ongoing standard maintenance regime. On this basis maintaining the status quo or "do nothing" option does not effectively meet the project objectives as outlined in the Business Case nor provide a satisfactory standard of office accommodation for Council Staff for the next 20+ years.

Three options were therefore considered for the provision of Civic facilities and service delivery, these were:

- Refurbish Existing Facilities and Lease Additional Space
- Pre-committed Lease Back (from private market) on Civic Hall Site
- Council Owned Civic Office Accommodation on Civic Hall Site

The three options were assessed by both a Financial Analysis utilising discounted cash flow analysis which considers all costs and benefits over 20, 25 and 30 year periods and a Weighted Evaluation of each option against a series of critical success factors, to confirm that option which best aligns with the project outcomes and objectives.

Summary financial analysis of the options for provision of new Civic accommodation:

A summary of the results of the Financial Analysis for the options outlining all cost and revenue items is included below.

Option 1: Use existing buildings and Lease additional space		Option 2: Pre-Committed Lease Back on Civic Hall site, including Asset Sales		Option 3: Council fund/ construct new Civic Office building on Civic Hall site, including Asset Sales	
Cost Component	Total 20 Year Cost	Cost Component	Total 20 Year Cost	Cost Component	Total 20 Year Cost
Capital Expenditure	\$ (16,000,000)	Capital Expenditure	\$ (12,362,500)	Capital Expenditure	\$ (44,325,000)
Recurrent Costs	\$ (10,813,913)	Recurrent Costs	\$ (5,915,684)	Recurrent Costs	\$ (8,518,439)
Lease/ Rental Costs	\$ (6,808,000)	Lease/ Rental Costs	\$ (45,362,500)	Lease/ Rental Costs	\$ (440,973)
Interest Costs on Borrowings	\$ (2,316,853)	Interest Costs on Borrowings	\$ (1,479,271)	Interest Costs on Borrowings	\$ (20,133,470)
Revenues		Revenues		Revenues	
Asset Sales	\$0	Asset Sales	\$ 8,450,000	Asset Sales	\$ 8,450,000
Rate Returns from Disposed Properties	\$0	Rate Returns from Disposed Properties	\$ 1,596,574	Rate Returns from Disposed Properties	\$ 1,474,288
		Short Term sublease of surplus space	\$ 1,343,907	Short Term sublease of surplus space	\$ 1,343,907
End Capital Value of existing Buildings (Phoenix) after 20 years	\$ 10,000,000	End Capital Value of existing Buildings	\$0	End Capital Value of New Civic Building after 20 years	\$ 54,000,000
Additional Carparking Fees Revenues	\$0	Additional Carparking Fees Revenues	\$0	Additional Carparking Fees Revenues	\$ 3,040,000
Net Present Value (20 Years)	\$ (19,193,304)	Net Present Value (20 Years)	\$ (33,016,298)	Net Present Value (20 Years)	\$ (19,561,262)
Net Present Value (25 Years)	\$ (24,655,818)	Net Present Value (25 Years)	\$ (38,908,820)	Net Present Value (25 Years)	\$ (23,298,418)
Net Present Value (30 Years)	\$ (31,561,559)	Net Present Value (30 Years)	\$ (44,087,943)	Net Present Value (30 Years)	\$ (26,545,899)

The financial appraisal of the 3 options concluded Option 3 provides the best net present value total outcome of \$19.5 million which has regard to provision of an asset to Council with a conservative value of \$54 million. The net present value outcome for Option 3 (\$19.5 million) is also of a similar order to Option 1 (\$19.2 million) but delivers new Council Office accommodation and a Council owned asset with a conservative value of \$54 million compared to \$10 million for Option 1.

Recommendations:

Based on the findings of this Business Case Report, it was recommended that:

1. Ballarat City Council adopt Option 3 *Council Owned Civic Office Accommodation on Civic Hall Site* as the preferred option for provision of new Civic Accommodation.
2. Ballarat City Council adopt the following Reuse/ Disposal Strategies for existing surplus assets:
 - 2.1 *Town Hall – 225 Sturt Street, Ballarat* – The building be retained for continued use of the first floor for Council purposes and further progress planning and seeking Community Support Fund (CSF)/ external funding for the adaptive reuse of the ground floor level as a “Community Hub” to accommodate “community uses”.
 - 2.2 *Gordon Building* – This building will no longer be required for Council purposes and it is recommended that the lease of this building cease once new Council Office accommodation on the Civic Hall site has been completed.
 - 2.3 *Phoenix Building – 25 Armstrong Street, Ballarat* – This building would no longer be required for Council operational purposes and it is recommended that the property be disposed and returns from sale utilised to offset costs associated with provision of new Council Office accommodation on the Civic Hall site.
 - 2.4 *Former Wendouree Municipal Office building – 303 Gillies Street, Wendouree* - Given the site is not required for current Council operational purposes, it is recommended that the property be disposed and returns from sale utilised to offset costs associated with provision of new Council Office accommodation on the Civic Hall site.

Anthony Schinck
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